

## Rochester Institute of Technology RIT Scholar Works

---

Theses

Thesis/Dissertation Collections

---

2-6-2015

# Protection of the Domestic Food & Beverage Industry from Unfair Competition Coming from Foreign Countries

Kushtrim Spahiu

Follow this and additional works at: <http://scholarworks.rit.edu/theses>

---

### Recommended Citation

Spahiu, Kushtrim, "Protection of the Domestic Food & Beverage Industry from Unfair Competition Coming from Foreign Countries" (2015). Thesis. Rochester Institute of Technology. Accessed from

This Senior Project is brought to you for free and open access by the Thesis/Dissertation Collections at RIT Scholar Works. It has been accepted for inclusion in Theses by an authorized administrator of RIT Scholar Works. For more information, please contact [ritscholarworks@rit.edu](mailto:ritscholarworks@rit.edu).

A·U·K

Submitted to A.U.K. as part of requirement for graduation

Keywords

Protection

Domestic

Kosovo

Food

Industry

# Protection of the domestic food & beverage industry from unfair competition coming from foreign countries

By Kushtrim Spahiu

## Table of Contents

Acknowledgment .....	4
List of Symbols and Abbreviations.....	5
Executive Summary .....	6
Chapter 1 - General Background Information .....	7
1.1 Introduction.....	7
1.2 Literature Review.....	7
1.1.1 Infant Industry Argument.....	7
1.1.2 Import Substitution Theory .....	8
1.1.3. Strategic Trade Theory.....	9
1.2 The case of Bosnia and Herzegovina .....	10
1.2.1 Introduction .....	10
1.2.2 Bosnia and Herzegovina's Trade Policy .....	11
1.2.3. Trade Outcomes .....	11
Chapter 2 - Background Information on Kosovo.....	12
2.1 Introduction.....	12
2.2 Kosovo's exports and imports.....	12
2.3 Kosovo's Trade Policy.....	14
2.4 Kosovo's free trade agreements .....	15
2.4.1 CEFTA.....	15
2.4.2 Trade Agreement with Turkey .....	17
2.5 Trade Barriers to Domestic Producers in Kosovo.....	17
Chapter 3 - Methodology of the Study.....	19
3.1 Problems/Difficulties .....	19
3.2 Strengths/Weaknesses .....	20
Chapter 4 - Results of the Investigation.....	21
4.1 List of cases and their impact.....	22
4.2 Relevant statistics.....	25
Chapter 5 - Analysis.....	29
5.1 Sanitary and Phytosanitary trade barriers .....	29
5.2 Technical Barriers to Trade (TBT) .....	32
5.3 Import Quotas .....	33

Chapter 6 - Discussion .....	36
6.1 Options to ensure the protection of the domestic food industry .....	36
6.1.1 Withdrawal from the CEFTA .....	36
6.1.2 Modifying the CEFTA .....	38
6.1.3 Other remedies .....	39
Chapter 7 - Recommendations .....	39
7.1 A thorough analysis of the most traded agricultural commodities and the harmonization of regulations for these goods .....	40
7.2 Harmonization of legislation with WTO and EU standards .....	40
7.3 Higher involvement of traders and producers in the harmonization process and in drafting customs laws .....	41
7.4 Increased cooperation between the Food and Veterinary Agencies of the CEFTA countries .....	41
7.5 Higher transparency with regard to changes in regulations and standards and the creation of a joint electronic platform .....	42
Chapter 8 - Conclusion .....	43
Bibliography .....	44
Appendix.....	46

## Acknowledgment

This project could not have been completed without the help and guideline of some respected persons, who deserve my utmost gratitude. I would like to show my gratitude to all my A.U.K instructors as well as other professors for teaching me the foundations of writing a good report and applying different concepts to actual research.

In addition, I express my special and greatest gratitude to Professor Robert Muharremi, who was always available to assist and support me in every possible way. His valuable comments and suggestions helped me immensely in finalizing this project.

Many people have made suggestions and valuable comments which have contributed to this project and inspired me to complete this project with the greatest pleasure. I would like to expand my sincerest gratitude to all those who have directly and indirectly guided me in finalizing this project.

## List of Symbols and Abbreviations

CEFTA - Central European Free Trade Agreement

MTI - Ministry of Trade and Industry

NTB - Non Tariff Barriers

TBT - Technical Barriers to Trade

SPS - Sanitary and Phytosanitary

B & H - Bosnia & Herzegovina

UNMIK - United Nations Interim Administration Mission in Kosovo

EUR - euro, the official currency of the Eurozone which is used in Kosovo as well

kg - kilograms

OECD - The Organisation for Economic Co-operation and Development

WTO - World Trade Organization

EU - European Union

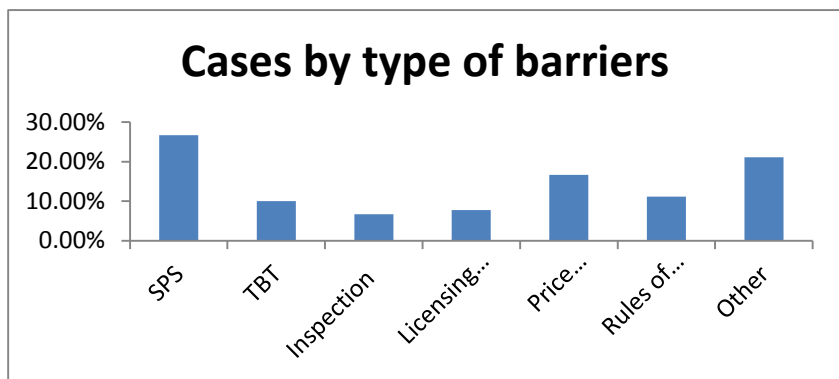
IMF - International Monetary Fund

EBRD - European Bank for Reconstruction and Development

## Executive Summary

This report analyzes the question of how domestic producers in the food industry can be protected from the unfair competition that comes from foreign producers and countries. Therefore, this project examines the types of barriers most often placed on food commodities and aims to provide insights on how these problems were resolved and most importantly how could they be resolved so that they are not encountered in the future.

The methodology used to obtain these results was mainly through interview reports and case reviews. The main findings show that the most often placed barriers to food commodities are SPS, TBT, and import quotas.



Moreover, this research project shows the financial losses which amount to exporters when trade barriers are placed to their products. In addition, the findings also show the steps that were taken in remedying the situation and provide the following recommendations so that such problems are encountered less often in the future.

The main recommendations include:

- Conducting an analysis of most traded goods and their level of harmonization
- Harmonize legislation with WTO and EU standards
- Involve traders and producers during the harmonization process and the drafting of laws
- Increase cooperation between the Food and Veterinary Agencies of CEFTA countries
- Create a joint electronic platform with the aim of increasing transparency with respect to changes in regulations and standards



## **Chapter 1 - General Background Information**

### **1.1 Introduction**

Many domestic producers in Low Developed Countries (LDC), defined by the United Nations as countries which have a low income and exhibit low socioeconomic development indicators, experience problems with regard to the disloyal competition that comes from foreign companies and countries (The United Nations, 2013). Disloyal competition includes a range of unfair practices which damage another country's domestic industry. Most often, this practice is the dishonoring of trade agreements which usually include the removal of trade barriers or state subsidies for a certain industry. In addition dumping practices are often used to price out competitors. However, not often is this done so publicly. Frequently, countries introduce hidden trade barriers such as 'new' quality standards which the domestic producers do not meet. Through these barriers they protect their own industries, but damage another country's domestic industries.

The problem here begins when the governments of such states make political decisions which may not be in the benefit of the country. Most often, when LDCs introduce a liberal trade regime, they do so for the political rather than the economic benefits of the country. By doing so, they gather the support of the political leaders of other countries who in turn support them in their political campaigns and so forth. Therefore, many economies of LDC have remained in a state of underdevelopment due to the introduction of a liberal trade regime.

### **1.2 Literature Review**

#### **1.1.1 Infant Industry Argument**

One of the most prominent theories and arguments in the economic literature, regarding the protection of domestic industry is the 'Infant Industry Argument' which was developed in the beginning of the Nineteenth Century by Alexander Hamilton and Friedrich List (Melitz, 2005). The basic premise of the argument is that a certain industry, which has a potential comparative advantage, could be able to succeed in the long run without special protection if it is first given protection in the form of tariffs, import quotas, subsidies etc. (Dictionary of trade policy terms, 2007). As such, this means that a temporary protection of an industry is required by the

government in order to facilitate the development of an industry. The advantages of introducing infant industry tariff protection is that domestic producers will be shielded from foreign competition, which means that they will be able to sell at higher prices than would normally be possible. Furthermore, manufacturers would be able to use the higher profits for investments in increasing their production capacities, in research and development, increase the quality of their products and ultimately achieve economies of scale. After this point, they would be able to compete with foreign competitors in the market. The idea of infant industry protection, however, has its disadvantages as well. The main argument against the idea of infant industry protection is that of whether a country can offset current losses with future savings. What this means is that, in the beginning consumers would have to pay higher prices, which come as a result of the lack of competition and hence represent the current losses. On the other hand, future savings mean that consumer prices would diminish after the domestic industry has been established in the market and the competition is opened. As a result of this, the prices could fall even lower than they were in the first place and as such, consumers benefit. Besides that, a developed domestic industry could create many jobs which would further facilitate the economic development of the country. Therefore, the argument here stands on the premise that future savings would offset current costs; however, if a country does not manage to help and protect their domestic producers then this theory would not be valid in the context of that country. The infant industry tariff protection policy was successfully implemented in post-World War II Japan; nonetheless, it experienced less success in the countries of the Latin America (MIRAVETE, 2010).

### **1.1.2 Import Substitution Theory**

An additional theory which is also often mentioned in the literature regarding the free trade policy is the Import Substitution Theory. As the title suggests, this basically means that imports or goods that are produced abroad are to be replaced with goods produced domestically (Garrod, 2008). The three main tenets which this theory is based on are:

- The introduction of industrial policy to subsidize domestic production
- The erection of protective trade barriers to discourage imports
- The operation of a monetary policy that overvalues the domestic currency.

These are the means that will assist in the emergence of a domestic industry and the development of domestic production capacity. While the advantages here stand upon the fact that imports are

being substituted for domestically produced goods, people are being employed etc., this theory does not come without its criticisms. The main criticism of this theory stands on the fact that the lack of competition from foreign companies will make domestic production inefficient which can have adverse effects on the development of the overall economy (Garrod, 2008).

### **1.1.3. Strategic Trade Theory**

Another theory which is usually less cited in literature is the Strategic Trade Theory. The main idea behind this theory is that governments adopt policies which promote the emergence and development of potential industries which are likely to become significant exporters in the future (Centre for International Economic Studies/WTO, 2007). Most often this type of policy is done through subsidies or other forms of protection as well. A hypothetical example of this could be the energy industry in Kosovo. If the government heavily subsidized the energy industry in Kosovo due to its large reserves of lignite, this would constitute a strategic trade policy. Another example could be the subsidizing of the diamond industry in Botswana since the country has large reserves of diamond. The advantages of implementing such a policy, which seems like many countries have already done, are that the domestic production can flourish due to the subsidies given by governments. In fact, many violations of free trade agreements arise when governments subsidize a strategic sector of their economy which is usually not allowed in free trade agreements. Similar to the argument of the infant industry, other benefits include the creation of new jobs, lower consumer prices in the future, and an overall economic development of the country. On the other hand, the disadvantages rest in the argument that through subsidies many foreign competitors are priced out of the market which increases consumer prices.

This shows that the idea behind these three theories, the infant industry, the import substitution, and the strategic trade theory is similar. However, the difference here stands in the fact that strategic trade policies are usually implemented through subsidies whereas infant industry policies involve trade barriers as well, while import substitution involves the activation of any measures or means necessary to protect the domestic industry. In addition, there is another difference between the infant industry theory and the strategic trade theory in that the latter one focuses solely on strategic sectors of the economy. This means that a country focuses on a specific sector which shows the greatest potential for development and not on all sectors. For

instance, Albania focuses its strategy on the development of hydro energy due to its large water resources; however, it does not focus its strategy on other sources of energy since it does not have large reserves of lignite which would enable the production of electricity through power plants.

## 1.2 The case of Bosnia and Herzegovina

### 1.2.1 Introduction

Bosnia and Herzegovina is a landlocked country located in the Balkans, in southeastern Europe. As a country, it has encountered many problems which are quite similar to the problems that Kosovo has faced throughout its history. These problems constitute both political and economic problems which are also similar to the other nations of the region. Nonetheless, Bosnia and Herzegovina has been making progress at a much faster pace than Kosovo in its road towards economic development. As such, Bosnia and Herzegovina is now considered an upper middle income country whereas Kosovo is still a lower middle income country (World Bank, 2014). In addition to that, a similar characteristic between the countries is that they are both heavily dependent on remittances (World Bank, 2009). Moreover, another characteristic shared between the countries is that Foreign Direct Investments (FDIs) are falling in both countries.<sup>1</sup> The table below provides a parallel comparison of the main economic indicators in B & H and Kosovo.

**Table 1: Comparison of World Development Indicators (2013)**

	B & H	Kosovo
<b>Land area (sq. km)</b>	51000	10887
<b>Population</b>	3.7	2
<b>GDP (current US\$)</b>	\$17827	\$6,959
<b>GDP per capita (current US\$)</b>	\$4,395.83	\$3,815.59
<b>GNI (current US\$)</b>	\$17,005	\$7,121
<b>Imports of goods and services (current US\$)</b>	\$9,359	\$2,449
<b>Exports of goods and services (current US\$)</b>	\$5,211	\$293

Note: The data is presented in millions (with the exception of GDP per capita)<sup>2</sup>

<sup>1</sup> Unfortunately, no reliable data can be found on the level of FDI in both countries so that an appropriate comparison can be made.

<sup>2</sup> (World Bank, 2014)

### 1.2.2 Bosnia and Herzegovina's Trade Policy

The current trade regime of Bosnia and Herzegovina (B & H) can be considered more open than that of the average upper-middle-income country (World Bank, 2009). B & H liberalized trade when it signed the Central European Free Trade Agreement (CEFTA) in 2006. Moreover, B & H also signed the Stabilization and Association Agreement (SAA) in 2008, with the goal of trade integration between B & H and the EU countries. Both these facts reflect the situation in Kosovo as well since Kosovo has now become part of the CEFTA and are in negotiation with the EU to sign the SAA. Nonetheless, B & H's benefits from the liberalization of trade have been minimal and when they have had an effect, it has come at the expense of increasing budget deficit (World Bank, 2009). As such, comparisons can be drawn to Kosovo, which experiences numerous problems in regard to the Free Trade Agreements (FTA) that the country is part of.

### 1.2.3. Trade Outcomes

With respect to the trade outcomes, the country's exports have grown more than those of the regional countries. Through the liberalization of trade the EU has become the main trading partner for B & H. EU accounts for more than a half of the country's exports and almost half of its imports (World Bank, 2009). Nonetheless, similar to the majority of other countries in the region, B & H's agricultural products face a less favorable trading environment (4.9 percent tariff) than its non-agricultural products (0.2 percent tariff). This is reflected in the fact that the main exports of the country continue to be metals and other minerals. As such, B & H is a country which faces trade barriers in the export of food and beverages in other countries, in spite of the FTAs that the country has reached (World Bank, 2009).

## **Chapter 2 - Background Information on Kosovo**

### **2.1 Introduction**

Kosovo is a land-locked country located in the Balkan Peninsula in Southeastern Europe. Similar to B & H, Kosovo has faced many political and economic problems. The current state of the economy, especially, is in a very bad state. Specifically, the country's economic indicators do not give a bright picture for the country's economy. There are numerous problems which result in this state of the economy. The main problem with regard to the development of the domestic industry is that many production facilities were destroyed during the war. Therefore, Kosovo had to start from scratch in order to rebuild its domestic industry. This has caused and still causes trouble for the economy of the country. Furthermore, there are other issues which prevent the development of the industry such as the lack of law enforcement, corruption, the lack of stable energy supply, the lack of fiscal policies beneficial to the manufacturing sector, as well as barriers to trade from other countries, which is the main problem this project focuses on. As such, remedies need to be found in order to tackle this problem and facilitate a better economic development. Specifically, this project will focus on the food industry and the barriers to trade this sector of the economy faces and will ultimately aim to identify and create solutions to this situation.

### **2.2 Kosovo's exports and imports**

The current economic indicators for Kosovo provide a grim view on the state of the country's economy. Many economic experts believe that Kosovo produces very little of its own products and imports large quantities of goods. What is even more interesting is that Kosovo also imports to a very large scale goods which are already produced within the country. This clearly illustrates that there is a problem with regard to production in the country. The current state of Kosovo's economy cannot be better reflected than through the figures which show the amount of exports and imports. The figures below give a general idea on the state of the economy by bringing to light the data which in this case represent a negative trend of economic development.

**Table 2: Exports and imports, according to statistical procedures<sup>3</sup>**

	<b>2012</b>	<b>2013</b>
<b>Total exports</b>	276,100	293,842
<b>Total imports</b>	2,507,609	2,449,064
<b>Balance of trade</b>	-2,231,509	-2,155,222

Note: The data are expressed in thousands of EUR

In addition to that, it is specifically important to look at the figures of exports and imports in specific industries. As such, the tables below provide information on specific sectors of the economy.

**Table 3: Exports by category (in thousands of EUR)<sup>4</sup>**

	<b>2012</b>	<b>2013</b>
<b>Food and live animals*</b>	19.843	20.723
<b>Beverages and tobacco</b>	10.264	13.387
<b>Crude materials, inedible, except fuels</b>	77.711	73.836
<b>Mineral fuels, lubricants and related materials</b>	13.359	22.562
<b>Animal and vegetable oils, fats and waxes</b>	59	45
<b>Chemicals and related products</b>	5.803	8.139
<b>Manufactured goods classified chiefly by material</b>	123.441	129.437
<b>Machinery and transport equipment</b>	16.628	11.629
<b>Miscellaneous manufactured articles</b>	8.912	13.941
<b>Other commodities</b>	81	143
<b>Total</b>	276.100	293.842

Note: The data are expressed in thousands of EUR

**Table 4: Imports by category (in thousands of EUR)<sup>5</sup>**

	<b>2012</b>	<b>2013</b>
<b>Food and live animals*</b>	420.982	429.618
<b>Beverages and tobacco</b>	116.808	119.203
<b>Crude materials, inedible, except fuels</b>	87.751	63.688

<sup>3</sup> (External Trade Statistics 2013, 2014)

<sup>4</sup> (External Trade Statistics 2013, 2014)

<sup>5</sup> (External Trade Statistics 2013, 2014)

<b>Mineral fuels, lubricants and related materials</b>	457.935	412.309
<b>Animal and vegetable oils, fats and waxes</b>	23.468	22.773
<b>Chemicals and related products</b>	264.181	277.471
<b>Manufactured goods classified chiefly by material</b>	520.567	520.610
<b>Machinery and transport equipment</b>	411.112	385.376
<b>Miscellaneous manufactured articles</b>	207.024	216.185
<b>Other commodities</b>	1.779	216.185
<b>Total</b>	2.507.609	2.449.064

**Table 5: Exports and imports in the food and live animals industry (in thousands of EUR)<sup>6</sup>**

	<b>2012</b>	<b>2013</b>
<b>Food and live animals exports</b>	€ 19.84	€ 20.72
<b>Food and live animals imports</b>	€ 420.98	€ 429.62
<b>Balance of trade in this sector</b>	<b>-€ 401.14</b>	<b>-€ 408.90</b>

Moreover, since this project will focus on the food industry it is important to see a comparison of the trade statistics in the food industry specifically. As seen from the table above, the difference between exports and imports in the food sector has increased. The table above shows that exports cover imports by less than 5%.

## 2.3 Kosovo's Trade Policy

Kosovo has an open economy to international trade which is dominated by imports and has a low level of exports (Berisha, 2011). In the post conflict period, Kosovo established commercial relations with different countries in the region and worldwide. Regarding the commercial relations, since the post conflict period, Kosovo has been very devoted to trade liberalization. This is reflected upon the fact that the main objectives of the trade policy of Kosovo are the participation in regional and wider trade facilitating mechanisms and the accession to the World Trade Organization (WTO) (Ministry of Trade and Industry, 2009). Moreover, according to the Mid Term Expenditure Framework (MTEF), a government document guiding the economy of Kosovo, the enhancement of trade through trade liberalization requires three aspects to be in place: import rationalization and replacement, trade facilitation, and export promotion. As cited

<sup>6</sup> (External Trade Statistics 2013, 2014)

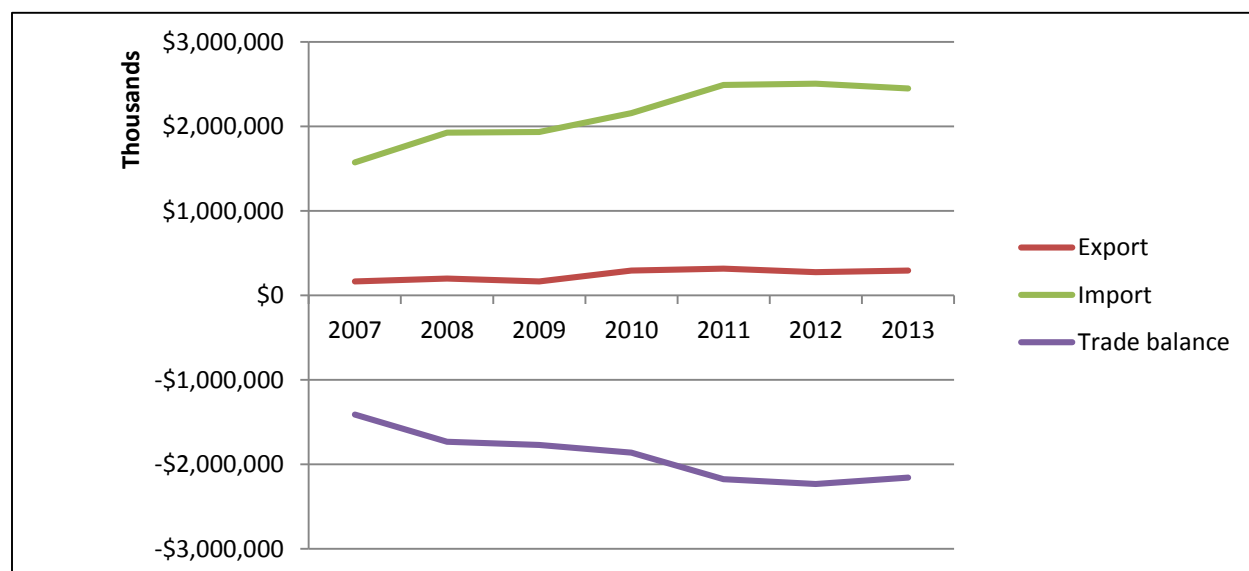


in this report, this is the integrated export strategy of the United Nations Conference on Trade and Development (UNCTAD) which gives equal importance to both domestic and foreign competition. Therefore, the main outlined objectives are the accession to larger trade facilitation mechanisms and organizations, the identification of trade policies and the evaluation of the currently implemented trade policies, as well as the improvement in institutional quality (Ministry of Trade and Industry, 2009).

## **2.4 Kosovo's free trade agreements**

### **2.4.1 CEFTA**

Kosovo has been a member of the CEFTA since 2007. Prior to the signing of this agreement Kosovo only had bilateral agreements with a number of regional countries such as Albania, Croatia, B & H, Macedonia etc.. At the time of the signing of this agreement in 2007, Kosovo's economy was in a poor state which is reflected upon the fact that Kosovo's trade deficit was considerably large. By the signing of this agreement, it was hoped that Kosovo would get out of the crisis it was situated in, since the Kosovar authorities believed that the integration in one free market would attract foreign investors and facilitate the export of goods from local producers (Berisha, 2011). Nevertheless, Kosovo is still in an economic crisis and the benefits from its membership in CEFTA have been negligent. This is illustrated in the Figure 1 below which shows the trend of exports, imports and the trade balance since the signing of CEFTA.

**Figure 1: The trend of exports, imports, and the trade balance since the signing of CEFTA<sup>7</sup>**

In addition to this, the table below shows the ranking of Kosovo in the ease of trading across borders. As can be seen from the table below, Kosovo ranks quite low in the World Bank's report on the Ease of Doing Business. While its position has improved recently, it still shows the difficulties that Kosovar producers face in exporting their products.

**Table 6: Ease of Doing Business Indicators (2012-2014)<sup>8</sup>**

	2012	2013	2014
<b>Ease of Doing Business Rank</b>	<b><u>117</u></b>	<b><u>98</u></b>	<b><u>86</u></b>
Starting a Business	168	126	100
Getting Electricity	124	120	121
Getting Credit	24	24	28
Protecting Investors	174	95	98
Paying Taxes	46	42	43
Trading Across Borders*	131	122	121
Enforcing Contracts	157	139	138

<sup>7</sup> (External Trade Statistics 2013, 2014)

<sup>8</sup> (American Chamber of Commerce in Kosovo, 2013)

### **2.4.2 Trade Agreement with Turkey**

Since 2013, Kosovo has started negotiations with Turkey on the liberalization of trade between the two countries. The conclusion of the negotiations is expected to be done by the beginning of 2016. As such, this would be the second Free Trade Agreement that Kosovo would become a part of. The negotiations with Turkey revolve around different sectors of the economy including services, transportation, minerals etc. (USAID, 2013).

As it can be seen, for the moment Kosovo is a member of only one FTA and has just started negotiations on a bilateral agreement with another country and the EU through the Stabilization Association Agreement. Hence, it is important that the leaders of these negotiations and the authorities of Kosovo are careful when agreeing on deals which will prohibit or at least hamper to some extent the development of domestic producers. Many countries which have adopted FTAs have done so in a time when their domestic industries were starting to emerge and flourish. Hence, it is important not to rush in signing FTA which would legally prohibit governments from placing trade barriers or giving subsidies which would support domestic producers.

### **2.5 Trade Barriers to Domestic Producers in Kosovo**

There are a number of trade barriers that have been introduced to the domestic producers in Kosovo. Specifically, in the food industry sector there is a very recent case where trade barriers have been implemented. Starting from October 1<sup>st</sup> of this year, the import of flour from Kosovo to Albania has been banned for those 'bags' of flour which do not meet the level of protein of at least 12.5% (Shala & Prebreza, 2014). Through this decision, the government of Albania increased the level of protein that flour should have from 7 % to 12.5 % with the reasoning that the flour with a level of protein below 12.5% does not meet the EU standards (Shala & Prebreza, 2014). This means that a large amount of flour imports from Kosovo has been banned. This is one of the most recent cases which illustrate how 'hidden' trade barriers are placed upon food products in Kosovo.

Moreover, there is an additional recent article on the problems that farmers are facing with the export of their products. They are complaining that imports are overshadowing their products which are not being sold within the domestic market (Telegrafi Newsportal, 2014). According to domestic farmers, the government has failed to create the appropriate conditions for the export of agricultural products. They believe that the government should give much higher subsidies to them but should also initiate procedures for the elimination of trade barriers implemented towards Kosovar products. In addition, they suggested that the government introduce trade barriers for imported products so that they are able to sell their own goods in the local markets. Meanwhile, business representatives argue that the government should not only provide subsidies but also insure the protection of domestic products which due to the 'flood' of imports are suffering in terms of sales. Hence, in such a way domestic producers would not suffer the effects of disloyal competition and the competition in the market would become fair (Telegrafi Newsportal, 2014).

These cases are among the most recent examples of how domestic producers are suffering from the disloyal competition from foreign companies. Therefore, there is distinct need for a reexamination of trade policies. Most importantly, the need for better export conditions is clearly visible and the protection of domestic producers from disloyal competition seems as an urgent matter which the government should deal with.

## Chapter 3 - Methodology of the Study

The main purpose of this project was to find out how domestic food and beverage producers can be protected from the unfair competition that comes from foreign countries. In order to find out how to protect domestic food and beverage producers, information on the type of barriers and their occurrence rate had to be found.

### **Methods used to gather data:**

1. Interview reports
2. Case reviews

The main analytical tool used throughout this project was the systematic review method. This means that this project is focused on the main research question, which is “How to protect domestic food and beverage producers from unfair competition?” by trying to identify, select, and synthesize all selected journals, papers, case reviews, and interview reports which are relevant to this question.

The aim of this project is to provide insights into the problems that domestic food and beverage producers face when they export products to foreign countries. This project focuses on the trade barriers among CEFTA countries since that is the only free trade agreement that Kosovo is a part of. Moreover, this project unveils expert opinions on how the issues of unfair competition should be resolved, i.e. whether Kosovo should leave CEFTA, whether CEFTA ought to be modified, and other means of resolving this problem.

### **3.1 Problems/Difficulties**

Finding the people to interview did not pose much of a problem. However, what did pose a problem during the interview process was that the interviewees were reluctant to provide detailed information regarding this issue. During the data gathering process, the difficulty revolved around finding accurate information and up to date statistics on the issue. That is because the information provided was quite general without getting down to the specifics. During the interviews, some questions had to be repeated in order to extract the best possible information.

Gathering statistical data for the issue of unfair competition with respect to foreign producers was not possible. There are numerous reasons for this. First, conducting surveys was not feasible because it would be very difficult to find a large enough sample size. While there may be many businesses operating in Kosovo, most of them are reluctant to provide accurate information on their business operation. The experts who were interviewed said that many business owners are reluctant to provide such information because it is usually sensitive to their business operations. Second, officials from MTI said that statistical analysis of data regarding unfair competition is not feasible and as such cases should be analyzed individually. Overall, the main difficulty revolved around gathering a broader range of information, meaning more cases which could shed light into the problem.

### **3.2 Strengths/Weaknesses**

The main strength of this research is that the data gathered came from experts of the field who have provided accurate information and shared their expertise and opinion on the issue of unfair competition. Moreover, an important and key strength of this investigation is that some of the data came from MTI, which is the responsible institution for issues relating to international trade among Kosovo and other countries. This means that the data are quite recent and directly relevant to the case.

On the other hand, the weakness of this research revolves around the fact that there are few statistical data relevant to the issue in question. The nature of the research question does not allow for the gathering of statistical data. This is also confirmed by the fact that even MTI, the institution responsible for such issues, had not obtained statistical data regarding the issue. The reason why this is a weakness is that it prevents the presentation of data through graphs, which would make it easier for the reader to comprehend the material. Nonetheless, there are still some relevant statistics which can yet shed light to this issue.

## Chapter 4 - Results of the Investigation

The table below provides information and data on the level of exports and imports with each of the CEFTA countries. This is important to the analysis part since it provides information on trade, meaning it helps in analyzing the cases and seeing which country's trade barriers are most likely to affect domestic producers.

Table 1.1: Kosovo main trade partners – exports, imports, trade balances, 2013

<b>Partners</b>	<b>Exports</b>		<b>Imports</b>		<b>Trade Balance</b>	
<b>CEFTA (1)</b>	<b>Value('000 EUR)</b>	<b>Share (%)</b>	<b>Value('000 EUR)</b>	<b>Share (%)</b>	<b>Value</b>	<b>Share (%)</b>
Albania	43,800	14.9	110,463	4.5	-66,663	3.1
Bosnia & Herzegovina	2,814	1.0	83,537	3.4	-80,723	3.7
Macedonia	26,160	8.9	185,183	7.6	-159,023	7.4
Montenegro	17,401	5.9	11,387	0.5	6,014	-0.3
Serbia	14,335	4.9	285,233	11.6	-270,898	12.6
TOTAL among CEFTA	104,510	36	675,803	28	-571,293	27
EU	118,429	40	1,084,846	44	-966,419	45
Rest of the world	70,980	24.1	689,713	28.1	-618,733	28.7
Total	293,919	100.0	2,450,362	100	-2,156,443	100.0

Note: Moldova excluded

Source: MTI trade data base

## 4.1 List of cases and their impact

Table 2.1: The case of an NTB placed by Serbia and B & H on all Kosovar exports

Country	Serbia and Bosnia & Herzegovina
Type of barrier	Documentation (Technical barrier)
Year(s)	2008 - 2011
Problem	The problem in this instance revolved around the fact that Serbia and B & H did not recognize the new Kosovo customs stamps.
Impact	The impact of this trade barrier was that during 2011, Kosovar exports to these two countries were reduced by 15 to 16 million EUR per year, for each of these two countries. The total loss caused due to this technical trade barrier amounted to more than 50 million EUR. Total Kosovar exports declined by 5-6% during this three year period.
Solution	Kosovo decided to enact reciprocity measures. For B & H, the MTI decided to impose a 10% standard custom duty tax, whereas Serbian imports were banned completely for 58 days. A permanent solution was achieved during the dialogue between Serbia and Kosovo, where the Serbian counterpart accepted the Kosovo customs stamps.
Source: MTI trade data base	

This is one of the major cases which harmed domestic food & beverage producers mostly, since the exports of these goods to Serbia and B & H accounted for a large amount of total Kosovar exports. This is an example of a technical trade barrier which was placed on Kosovar products and severely damaged this industry.

Table 2.2: The case of an NTB placed on Kosovar alcohol exports by Albania

Country	Albania
Type of barrier	Import quota
Year(s)	2012
Problem	The problem in this case was that the Albanian counterpart placed an excise tax based on the amount of production. This excise tax was placed on all alcohol beverage producers, such as wine producers, who exceeded the amount of 1 million litres of production.
Impact	The impact of this trade barrier was that in 2012, the losses to the wine producers amounted to 22.000 EUR. Meanwhile, the losses for beer producers were considered to be even larger. It was noted that, one other significant effect which cannot be measured quantitatively was that domestic producers of wine and beer were discouraged to export to the Albanian market which was expanding at the time.
Solution	The issue was resolved through direct negotiations between the responsible parties of both countries.
Source: MTI trade data base	



Similarly, this is another NTB which was placed on Kosovar products. As noted in the case above, besides the financial impact that trade barriers have, they also have non-financial impact, i.e. they discourage producers to export to foreign markets due to the high cost and risk associated with doing so.

**Table 2.3:** The case of an NTB placed on all Kosovar goods from Macedonia

Country	Macedonia
Type of barrier	Documentation (technical barrier)
Year(s)	2012
Problem	The problem in this case was that the Macedonian institutions arbitrarily required additional documents in order to allow Kosovar products to pass the border.
Impact	The impact of this trade barrier was mainly delays in the customs points while exporting products from Kosovo to Macedonia. This in turn resulted in incurred losses for all exporters to Macedonia. No exact data on the amount of losses exist on this case.
Solution	The Kosovar institutions enacted their right granted by CEFTA and introduced reciprocal measures to protect flour producers.
Source: MTI trade data base	

This is another typical technical trade barrier placed on Kosovar exports. Most CEFTA countries already require many documents when exporting products. As such, the addition of other documents and especially in an arbitral manner such as the one above causes problems for Kosovar producers.

**Table 2.4:** The case of an NTB placed on Kosovar flour exports from Macedonia

Country	Macedonia
Type of barrier	Import quota
Year(s)	2012
Problem	The problem in this case was that the Macedonian institutions enacted a policy which required Macedonian traders and producers to use 3kg of flour produced domestically for every 4kg of flour imported from abroad.
Impact	The impact of this trade barrier was quite severe since Kosovar producers of flour incurred large losses. The flour exports from Kosovo to Macedonia decreased substantially and amounted to at least over 1 million EUR.
Solution	The Kosovar institutions did the same thing as the Macedonian counterparts did in the previous case (refer to Table 2.2), and required additional documents and origin certificates for Macedonian exports to Kosovo. Thus, the Kosovar counterpart introduced reciprocal measures to

	protect the country's flour industry.
Source: MTI trade data base	

Similar to the previous cases, the solution to the problem involved the introduction of reciprocal measures yet again. As such, it must be noted that most often the Kosovar institutions have introduced reciprocal measures to deal with the problem.

**Table 2.5:** The case of an NTB placed on Kosovar flour exports by Albania

Country	Albania
Type of barrier	SPS ( quality standards)
Year(s)	2014
Problem	The problem in this case was that the Albanian counterpart introduced a decision which required that imported flour have 12.5% protein levels. Kosovar producers of flour did not meet this requirement which is not a commonly held requirement among all EU member states or CEFTA member countries.
Impact	The impact of this trade barrier is difficult to be measured. What can be said is that the export of flour from Kosovo to Albania stopped for some time and that caused losses for the flour producing companies since they did not have where to sell their product.
Solution	The issue was resolved through direct negotiations between the responsible parties of both countries. It is worth mentioning that after an agreement was reached, the decision was re-introduced. Nevertheless, after another round of negotiations the decision was removed permanently and the directive was changed, which allowed Kosovar companies to export flour to Albania.
Source: MTI trade data base	

This is a case of a typical trade barrier being placed on agricultural goods. Representatives of MTI state that sanitary and phytosanitary measures are the most common NTBs placed on Kosovar exports.

**Table 2.6:** The case of an SPS and administrative trade barrier placed on Kosovar exports by Serbia

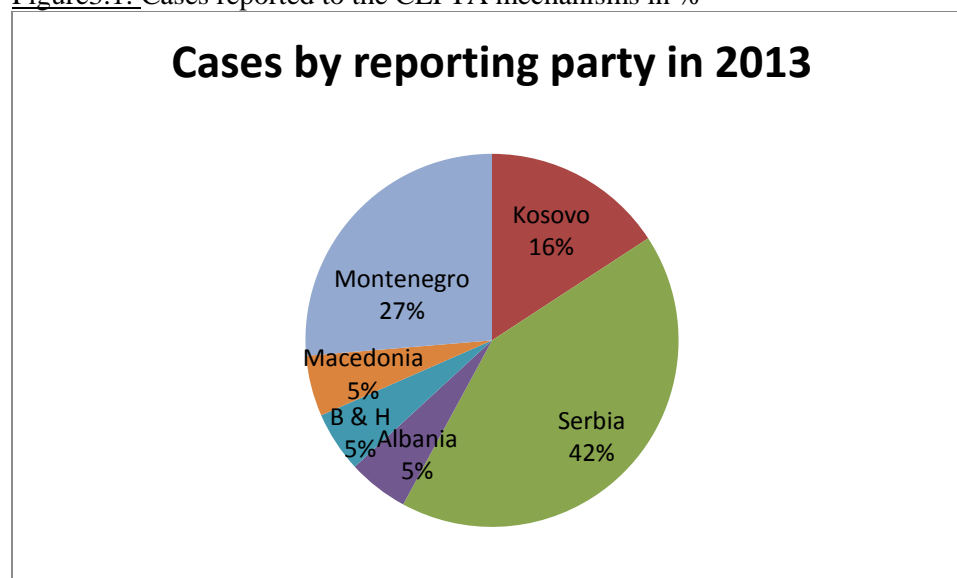
Country	Serbia
Type of barrier	SPS and administrative trade barrier ( quality standards)
Year(s)	2013
Problem	The problem with this case was that the Serbian authorities requested a Kosovar trader to conduct two additional analyses for each shipment as well as obtain another document with a different stamp instead of the national Kosovar stamp.
Impact	Unknown impact on the company besides the creation of extra costs for

	conducting two additional analyses.
Solution	The issue was resolved through direct negotiations between the MTI and the representatives of the Chambers dealing with these kind of issues in Serbia.
Source: MTI trade data base	

This is yet another case of SPS barriers being place on Kosovar goods by Serbian counterparts. In addition to that, it can be noted that administrative trade barriers, such as the one with customs stamps are still placed on Kosovar goods by Serbian counterparts even though an agreement was reached with respect to the customs stamps.

## 4.2 Relevant statistics

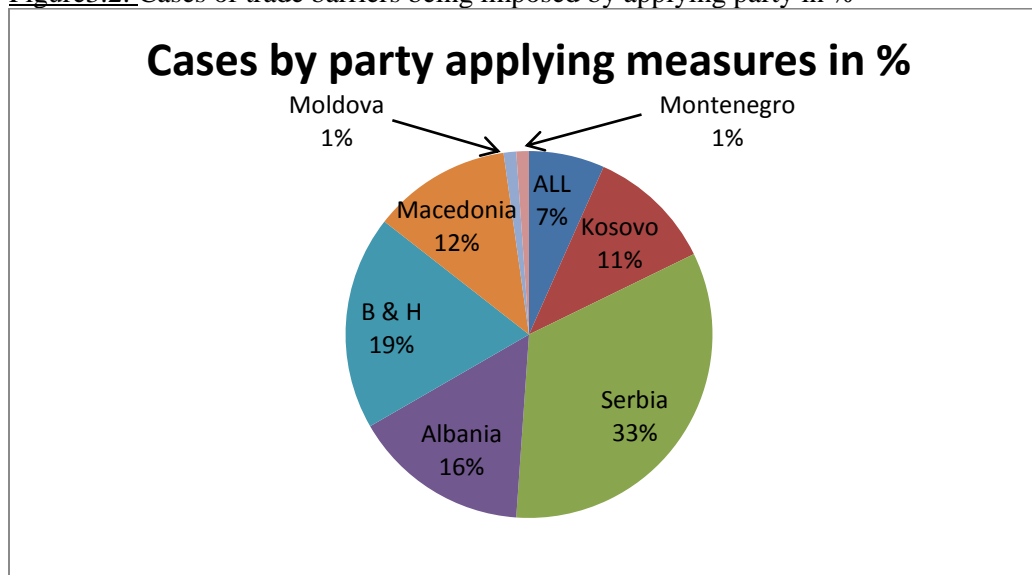
Figure3.1: Cases reported to the CEFTA mechanisms in %



Source: CEFTA online directory

As can be noted from Figure 3.1, Kosovo, Montenegro, and Serbia are the countries which have reported the most cases of trade barriers being placed on their products to the CEFTA body. However, it should be noted that these figures represent only the percentage of cases that have been reported to the CEFTA body. This means that there are numerous cases which are resolved directly through negotiations between the parties and are not reported to the CEFTA body mechanisms for resolution.

**Figure3.2:** Cases of trade barriers being imposed by applying party in %

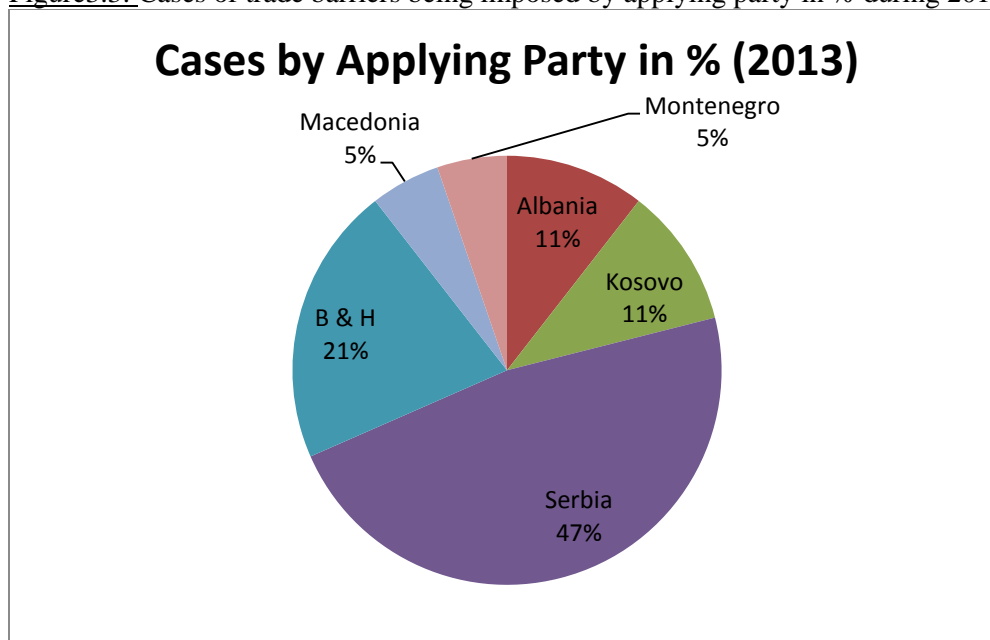


Note: These are the cases by party applying measures since the signing of CEFTA in 2006

Source: Source: CEFTA online directory

Figure 3.2 shows the percentage of cases where countries have placed trade barriers to protect their own industries. ALL refers to cases when a similar trade barrier has been placed by all countries.

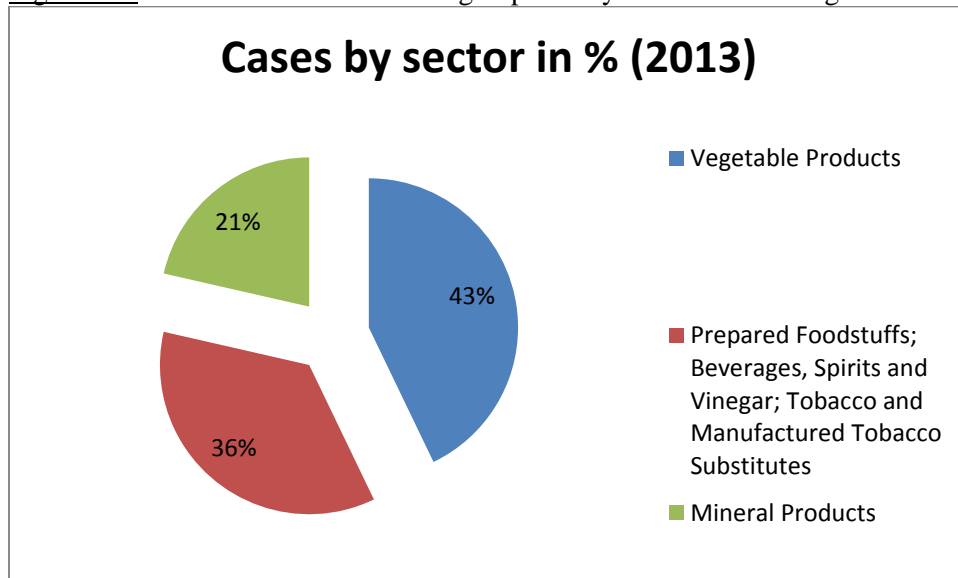
**Figure3.3:** Cases of trade barriers being imposed by applying party in % during 2013



Source: CEFTA online directory

The figure above provides recent data (2013) on the percentage of cases of trade barriers being imposed by the parties. As can be noted in the figure above, Serbia is the country which has imposed most trade barriers within the CEFTA countries.

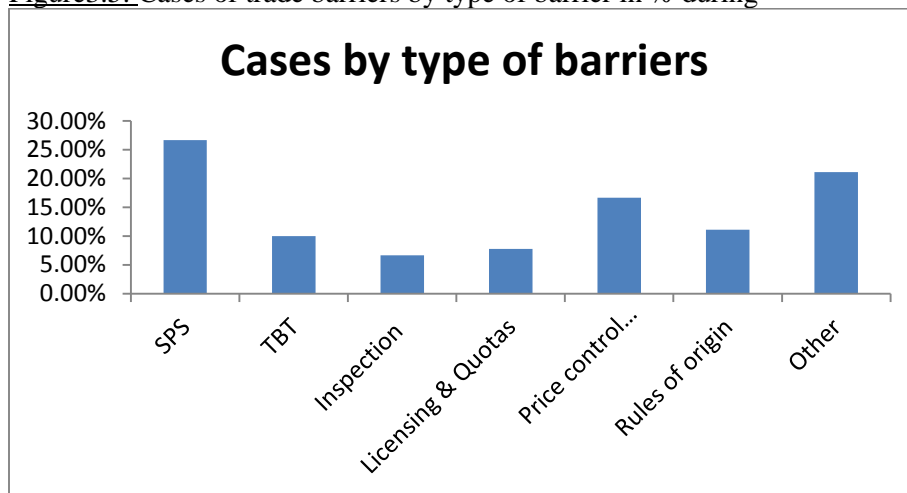
Figure3.4: Cases of trade barriers being imposed by sector in % during 2013



Source: CEFTA online directory

While these data account for the trade barriers in all CEFTA countries, this can still help to shed light into the industries which are most affected by the trade barriers. The figure above confirms that the majority of the trade barriers (79%) are placed on food and beverage products.

Figure3.5: Cases of trade barriers by type of barrier in % during



Note: These are the cases by type of barrier since the signing of CEFTA in 2006

Source: CEFTA online directory

Figure 3.5 answers another question. As illustrated in the bar chart, the most common trade barrier placed among CEFTA countries are the SPS trade barriers. TBT, Inspection, as well as Licensing and Quotas are also prevalent among CEFTA countries. The nature of the trade barriers themselves confirms that trade barriers are placed mostly on agricultural products.

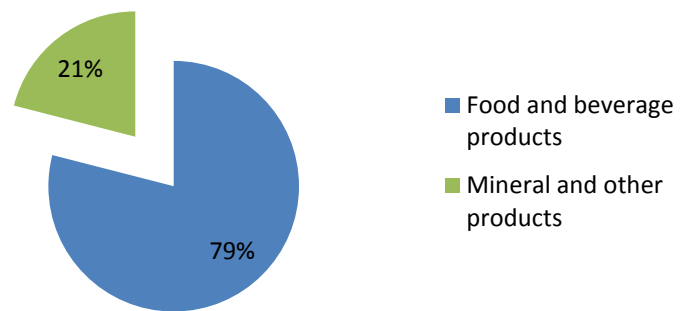
## Chapter 5 - Analysis

The results above illustrate that Kosovo still has numerous problems with regard to trade barriers being placed on its products by member countries of CEFTA. Mostly, these trade barriers have been and are being placed in products such as food and beverages. Concretely, 79% of the trade barriers placed on Kosovar products are placed on food items, while 21% are placed on mineral products and other items.

The reason why this poses a huge difficulty to Kosovo is because the country has a much better comparative

advantage in producing agricultural products due to the large masses of arable land. While by no means is Kosovo better than other countries in producing agricultural products, this sector still represents the most viable and feasible sector which could bring about a high economic growth to the country. As such, it is important to analyze the type of barriers being placed on these products, how often are these barriers placed, and their effect on the industry (though the complete effect cannot be quantified).

Figure 5.1 Cases by sector in % (2013)



Source: CEFTA Online Directory

### 5.1 Sanitary and Phytosanitary trade barriers

As seen from Figure 3.5, the most commonly placed trade barrier to Kosovar products are Sanitary and Phytosanitary (SPS) barriers. Figure 3.5 shows that 25% of all trade barriers are SPS measures. This is not surprising considering that all CEFTA member countries have signed a free trade agreement and as such need not so obvious mechanisms when imposing trade barriers. This means that SPS barriers are easier to impose because of the reduced risk of violating the CEFTA in an obvious manner which would draw much attention. As stated in the 2013 SPS Report of the U.S. government, “[many] SPS measures are fully justified, but too often governments cloak discriminatory and protectionist trade measures in the guise of ensuring

human, animal, or plant safety” (Office of the United States Trade Representative, 2013). As such, in the name of ensuring food safety many governments of CEFTA member countries also impose such barriers, precisely because of the relative difficulty of arguing whether these measures are justifiable or not. The results presented above show two cases in which SPS measures have been placed. Concretely, those two cases were against Serbia and Albania, in 2013 and 2014 respectively.

In the first case (Table 2.6), Serbia made a decision to request Kosovar exporters to conduct two additional analyses for each shipment of their product. This poses a number of problems for the Kosovar exporters. First, each shipment has to go through two additional laboratory analyses before getting customs clearance. When one considers that for agricultural products the number of shipments is usually more than one truck (due to truck capacity), this barrier poses long delays for the exporter. Coupled with the fact that there are numerous exporters and not only one, the delays can become very long. In that regard, an additional problem arises in that agricultural products need certain conditions and must be consumed within a certain time before they go rotten. As such, due to these delays there is a high risk that the food products will become inconsumable.

All these problems amount to additional costs for the Kosovar exporter. First, it is the cost of conducting the additional laboratory analyses. Second, it is the cost of damaged goods due to the delays. Furthermore, besides financial costs, the unquantifiable costs include the loss of reputation for the Kosovar companies since as a result of the SPS measure they are not able to fulfill their obligations in time. In addition, this also discourages companies to export in Serbia due to the problems that may arise. Consequently, the effects of SPS measures, especially for food exporters, who are usually small companies in size, can be devastating in that the company may go bankrupt.

The second case (Table 2.5) is against Albania, where the respective Ministry made a decision to suddenly increase the minimum level of proteins required in flour to 12.5%. The problem here arises due to the fact that Kosovar flour producers did not meet this requirement since it had



never been in place before and is not applied in any other state among the CEFTA member countries nor the EU countries.

It is worth mentioning here that such measures are often also placed temporarily during the season so that domestic producers can sell more of their products. Needless to say, this does not only apply to flour but also to other food products as well. What is important to note here is that it is quite likely that this measure was only meant to be temporary in order to diminish the supply of flour so that Albanian producers could sell more of their product in their country. This is further reinforced due to the fact that the problem was resolved within two months through direct negotiations between the parties.

Kosovo has both large and small producers of flour. In that regard, the losses cannot be estimated; nevertheless, knowing that most of the flour from Kosovo is exported to Albania, it can be deduced that the losses were quite large (Ministry of Trade and Industry, 2014). So, the financial costs are potentially very troublesome for most producers of flour in Kosovo as large quantities of flour remain unsold in inventory.

What can be deduced from the analysis above is that SPS measures are usually troublesome for the MTI due to numerous reasons. First, it demotivates the MTI to report the cases to the CEFTA dispute resolution mechanism due to the difficulty of arguing the case and the long process of obtaining a decision from the dispute resolution mechanism (again due to difficulties in arguments). Therefore, in most cases it is much more viable to negotiate directly with the trade barrier imposing country rather than resort to CEFTA mechanisms. However, a fundamental problem arises with regard to negotiations among countries. Unfortunately, the current tense political situation among the states in the Balkan region (with the exception of Albania) prevents the quick and permanent resolution of this matter through negotiations. As it can be observed, the agreements reached so far between Serbia and Kosovo have firstly taken a long time to be reached through drawn-out negotiations and most importantly, any agreed results are commonly not respected and breached. While it can be argued that the issues discussed during those negotiations are more of a political nature, meaning that it is relatively “normal” if they are not fully implemented, issues of trade barriers are of high importance as well because they determine

the relative ease with which a country can export its products. As such, it can be argued that the issue of trade barriers is also very sensitive precisely because of the government's duty to ensure the growth of its own industries. In this respect, SPS measures pose a difficult threat to the food industry in Kosovo due to the inability of quick resolution of such matters and the high costs imposed to exporters from Kosovo.

## 5.2 Technical Barriers to Trade (TBT)

Technical Barriers to Trade (TBT) are barriers which put extra technical regulations, standards, testing, and certification procedures with the intention of creating obstacles to trade (World Trade Organization). Figure 3.5 shows that TBTs are placed 10% of the time which while not the most common trade barrier, it still poses major problems to Kosovar exporters. The reason why this poses major complications to exporters is that technical regulations as well as standards vary considerably among countries (World Trade Organization). So, while Kosovo's technical regulations and standards may be aligned with one of the CEFTA member countries, it is highly likely that they are not aligned with other CEFTA countries, in spite of the existence of the agreement itself. This means that even though all countries are signatories to the CEFTA that does not necessarily mean that their standards are harmonized. Therefore, it is important to analyze the cases of TBTs, the financial burden associated with them, and to examine their effect in the food industry in Kosovo.

The results presented above show two cases in which TBT measures have been placed. Concretely, those two cases were against Serbia and B & H as well as Macedonia, during the periods 2008-2011 and 2012 respectively. The first and arguably the most severe case (Table 2.1) of a TBT being placed on Kosovar exports occurred during 2008-2011 when Serbia, together with B & H, refused to recognize the new Kosovo customs stamps on products flowing outside of Kosovo. Therefore, the problem here was a matter of a certain document which supposedly did not fulfill the necessary criteria and had to be changed before being recognized and before the products could receive customs clearance. The reason why the customs stamps had changed was because Kosovo had just declared independence and now as an independent state it ought to have its own customs stamps instead of the UNMIK stamps. In this case, Kosovo decided to enforce reciprocity measures. Concretely, for products coming from B & H, the MTI

decided to impose a 10% standard custom duty tax, whereas Serbian imports were banned completely for 58 days. The solution to the problem was achieved during the dialogue between Serbia and Kosovo, where the Kosovo custom stamps were finally accepted. Nevertheless, it was reported at that time that Kosovar exporters still had and in some cases continue to have problems with both Serbia and B & H with respect to documentation.

The financial losses caused by this TBT were extraordinary for a small country such as Kosovo. Total Kosovar exports declined by 5-6% during this three year period. In terms of monetary value, exports to these two countries were reduced by 15 to 16 million EUR each. However, the total losses exceeded even this amount and amounted to over 50 million EUR. The reason why the losses exceeded the amount of money lost due to the decline in exports is because many producers in all likelihood went bankrupt. Moreover, another reason could be that with the lack of revenue, these producers could not make the necessary investments to improve the quality of their product and eventually they were pushed outside of the market.

The second case (Table 2.3) of a TBT measure was against Macedonia in 2012 when the Macedonian institutions arbitrarily decided to request additional documents in order to allow Kosovar products to pass the border. In this case, many shipments of products had to return in Kosovo and obtain those additional documents before being sent to Macedonia again. Moreover, delays in the customs points became customary during that period of time. The Kosovar institution's response to this TBT was to enact their right granted by CEFTA, i.e. to introduce reciprocal measures to protect their producers (Agreement On Amendment Of And Accession To The Central European Free Trade Agreement, 2006). In this case, the Kosovar institutions did not resort to direct negotiations and instead introduced reciprocal measures until this requirement for additional documents was removed by the Macedonian counterpart. In terms of financial costs, no exact data on the amount of losses exist on this case.

### 5.3 Import Quotas

Another prevalent barrier mechanism imposed on exports from Kosovo is import quotas. Import quotas are “government-imposed limit on the quantity, or in exceptional cases the value, of the

goods or services that may be exported or imported over a specified period of time” (The Editors of Encyclopædia Britannica). Usually, these are more effective than non-tariff barriers because imports are limited quantitatively, i.e. only a certain amount of a product may be imported and that limit cannot be exceeded. Moreover, another form of an import quota, which is often placed, is that of increasing customs duty rates once the amount limit has been exceeded. In fact, this is the most prevalent form of import quotas placed on Kosovar products as well. Two cases of such measures being introduced against Kosovar products occurred in 2012 against Albania with the item being alcoholic beverages such as beer and wine as well as Macedonia with the item being flour.

In the first case (Table 2.2), the problem arose when the Albanian authorities placed an excise tax based on the amount of production of all alcohol beverage producers, such as wine and beer producers. With respect to the wine producers, this excise tax was placed on all those producers who exceeded 1 million liters of production. While this may seem a large amount it is worth mentioning that the wine industry in Kosovo is relatively developed when taking into account the economic situation of the country. That is to say that the total production of wine well exceeds the 1 million liters of production and as such it is likely that a large amount of wine is exported to Albania as well (Kosovo wineries struggle after freedom won, 2009). Currently, no statistical data exist on the total amount of wine production and wine exports to Albania. Nevertheless, it is safe to assume that the total amount of wine exports in Albania well exceeds the 1 million liters. Meanwhile, beer production is also relatively large, when considering that there is at least one large producer such as ‘Birra Peja’ and that new breweries are being opened more commonly. As such, the amount of liters of alcoholic beverages being exported to Albania is quite large and consequently this excise tax has major effects in terms of financial costs.

In that regard, the calculated losses to the wine producers amounted to 22.000 EUR whereas the losses to the beer producers were considered to be even larger; however, no measurement was ever made with regard to the total losses for beer producers. Importantly it was noted that this excise tax had additional effects in that it discouraged the export of these alcoholic beverages to the Albanian market which was expanding at that time. Moreover, these losses were realized only for a short period of time since the issue was resolved relatively quickly through direct

negotiations between the responsible parties of both countries. Therefore, had this excise tax persisted for a longer time period, the losses would have been even larger.

In the second case (Table 2.4), the problem revolved around the decision of Macedonian institutions to enact a policy which required all Macedonian traders and producers to use three kg of flour produced domestically for every four kg of flour imported from abroad. This is an import quota since the amount of imports is being limited and tied to the amount of domestic production rather than to an excise duty. This means that instead of extra payments for the exporter, the foreign producers will not be able to export their product due to the artificial decline in demand. In this case, the artificial decline in demand means that traders in Macedonia will demand less flour from foreign producers because of the policy which requires them to buy domestically. The reason why this is considered artificial is that the demand for Kosovar flour declined due to a governmental decision rather than due to the customer's preferences.

As can be expected, the financial losses to Kosovar flour producers were quite high. Concretely, it was estimated by the MTI that the incurred losses amounted to at least over 1 million EUR. This can be considered as a quite large amount for both the large and small producers of flour in Kosovo. While this amount of 1 million EUR was not attributed to only one of the producers, a substantive amount of losses were incurred by the larger producers due to the higher exports. In order to protect the flour industry, the Kosovar counterparts decided to enact reciprocal measures. However, instead of introducing a similar policy in Kosovo or placing an excise tax on Macedonian exporters the Kosovar institutions resorted to other means. Instead of placing an import quota, the Kosovar counterparts required additional documents and origin certificates for Macedonian exporters.

What can be noted from the above analysis is that the response of the Kosovar institutions to trade barriers varies depending on the type of trade barrier. In both cases where TBT measures were placed on Kosovar exports as well as on the two cases where import quotas were placed, the institutions responded with reciprocal measures. On the other hand, in the cases where SPS measures were placed, the institutions resorted to direct negotiations. This serves to prove that SPS measures are most often very difficult to argue against which is why it is difficult to make a

case that warrants the use of reciprocal measures. On the other hand, TBT measures are more obvious and the use of reciprocal measures is warranted. This also shows why the most prevalent barriers are SPS measures whereas TBT measures and import quotas are enacted at a lower rate (refer to Figure 3.5). This is also confirmed by an OECD report which states that among CEFTA member countries, trade barriers are placed mostly on food, beverages, and agricultural products, with SPS measures being the ones that are placed more often (OECD Investment Compact for South East Europe).

## **Chapter 6 - Discussion**

In light of the results above, remedies to the problems of trade barriers should be considered. There are a number of options that could ensure the protection of the domestic food industry. These options are leaving the CEFTA, modifying the CEFTA, and increasing the cooperation among CEFTA members.

### **6.1 Options to ensure the protection of the domestic food industry**

#### **6.1.1 Withdrawal from the CEFTA**

The first option to remedy the situation is to withdraw from CEFTA altogether. Before eliminating the option of withdrawing from the CEFTA, one should consider both the advantages and disadvantages of doing so and weigh the outcome.

If Kosovo decided to withdraw from the CEFTA, it would no longer have to comply with the regulations of the free trade agreement. This means that Kosovo would gain a number of mechanisms which would ensure the protection of the domestic industry. Concretely, Kosovo would be free to place any type of trade barrier for any product and as such ensure that domestic producers are able to sell their products first before importing from abroad. Moreover, due to the lower supply, it is likely that the prices of these items would increase and the producers would benefit highly from this because of increased revenues. Through these increased revenues, producers would be able to make different investments such as in machinery, productivity, quality of their products and as such become very competitive in the market. While this may sound as a good policy option, the drawbacks could potentially and most likely be catastrophic.

First, in the economic aspect, withdrawal from a free trade agreement and placing barriers could severely affect the domestic industries. After exiting CEFTA, the most likely result will be that other countries will start imposing trade barriers to Kosovo as well. As such, Kosovo would be closed to trade and would not be able to export any product outside its borders. This represents a huge loss in revenues for the Kosovar producers. These revenues could be used for making investments in increasing productivity or the quality of the products. Due to the inability to do so, many companies would be likely to default and cease to exist which could have major ramifications in the economy of the country as a whole. If the example of wine is taken, where the liters of production highly exceed the amount of consumption inside the country, the effects could be very serious. Wine producers would most likely not produce even close to their full capacity and as such realize much lower revenues, which would eventually cause them to go bankrupt. Furthermore, certain countries produce certain commodities which are essential to life. For example, Kosovo still depends on imports to fulfill its needs for electricity. As such, Serbia, where Kosovo imports most of the energy, could stop its supply of electricity and Kosovo would experience a huge shortage of electricity. The effect of this would be disastrous in that many manufacturers would not be able to continue production without an essential commodity such as electricity. Therefore, it can easily be observed that the economic ramifications of leaving the CEFTA are potentially and most likely disastrous and as such the option of leaving CEFTA with respect to the economic effects will not be discussed in further detail.

Second, besides the economic aspect, there is also the political aspect which should be considered. In a world where most countries are pushing for more free trade, due to the obvious economic gains from free trade, leaving a free trade agreement would negatively impact the relations with other nations. Now there are numerous reasons why it is important to keep good relations with other countries. First, Kosovo borrows and relies heavily on many international organizations such as the IMF, the World Bank, the EBRD to support Kosovo in realizing many projects which could benefit the country economically. Next, an even more important aspect here would be that without the support of its allies, Kosovo's security would be in high risk in that any country could simply attack Kosovo. Considering the size of the country and its economic development, in all likelihood Kosovo would not be able to resist such attacks and would

eventually crumble. Therefore, while the option of leaving CEFTA is there, the negative effects of doing so highly outweigh the positive aspects. The three interviewees' response with regard to this option was that leaving CEFTA should be categorically be removed as an option to remedy the situation. Due to the numerous and obvious negative aspects of doing so, the discussion with regard to this option has been purposefully shortened.

### **6.1.2 Modifying the CEFTA**

Another option for protecting domestic producers is to modify the CEFTA. There are a number of areas where the CEFTA could potentially be modified that would result in better and fairer conditions for the development of domestic industries.

While 90% of the trade among CEFTA member countries is considered to be liberalized, there are still numerous areas where a marked improvement is necessary in order to ensure fair competition (Mostetschnig, 2011, p. 29). While the CEFTA accounted for a transitional period before the full liberalization of trade, this transitional period expired in 2010 and as of now 90% of trade among countries is liberalized. Therefore, in terms of modifying the CEFTA there is some room for modification though it is limited. This stands as such because CEFTA has begun implementation since 2007 and almost eight years have passed since it came into force (Mostetschnig, 2011). Therefore, countries should have by now completed the transition process and as such it is likely that there will be a high resistance from other countries to renegotiate CEFTA, especially for those countries whose food and beverage industry is highly developed. One of the interviewees thought of this option as a possible remedy which should be considered by the authorities and be brought up in the annual CEFTA meetings. The other two interviewees were less enthusiastic for this option precisely because of the difficulty in renegotiating the agreement and considered it as unrealistic.

Concretely, the areas where there is room for modification is the extension of the transitional period for certain industries. Potentially, this could go in even more detail in that a list of products which are highly subject to unfair competition could be protected through different means or through the use of subsidies. While the economic benefits of doing so are present, there would be a high resistance to this option. Nevertheless, this option should not be dismissed



because there may be certain products which other countries want to protect and as such a consensus could potentially be reached in terms of products where subsidizing or other forms of protection would be allowed.

However, besides the economic aspect which could be beneficial for all the involved countries, one ought to consider the political aspect as well. The Balkans is still an area where conflict among states is still prevalent while not in the armed conflict sense, definitely in the political sense. Considering that diplomatic relations between countries in the Balkans are still shaky, renegotiating the CEFTA would be highly difficult and reaching an agreement, even though it could be wanted by all countries, could be vastly problematic.

### **6.1.3 Other remedies**

Considering that the first two options are highly improbable to occur and difficult to achieve, other remedies to the problem of unfair competition should be considered. These other remedies include a number of actions which could be taken in order to ensure fair competition among producers from different countries. These other remedies to protect and enforce domestic producers include: stronger cooperation with CEFTA signatory countries, increasing transparency with regard to regulations, a review of the harmonization of regulations and standards according to the WTO and EU standards. There are numerous options that exist with regard to this and they form an integral part of the recommendations given in this report. As such, these other remedies are discussed in the section below.

## **Chapter 7 - Recommendations**

As seen from the analysis and the discussion in this report, domestic industries in Kosovo are in dire need of protection from unfair competition from foreign producers. The term protection in this case does not mean imposing trade barriers, but rather means enforcing domestic producers and making sure that they are not subject to trade barriers and thereof of unfair competition. In this respect, the food industry requires special attention due to the higher risk of being subject to unfair competition. In light of this, there are a number of actions which the government of

Kosovo or the MTI should undertake in order to ensure that the domestic food and beverage industry is operating under fair competition. These actions include:

- A thorough analysis of the most traded agricultural commodities and the harmonization of regulations for these goods
- Harmonization of legislation with WTO and EU standards
- Higher involvement of traders and producers in drafting customs laws
- Increased cooperation between the Food and Veterinary Agencies of the CEFTA member countries
- Higher transparency with regard to changes in regulations and standards and the creation of a joint electronic platform

### **7.1 A thorough analysis of the most traded agricultural commodities and the harmonization of regulations for these goods**

The first action which should be taken by the institutions is to conduct a thorough analysis of the most traded agricultural commodities (including food items, agricultural products, beverages etc.), and examine the level of harmonization in regulations and standards for these specific goods. First, this would enable the government to know where to direct its efforts and resources mostly with regard to protecting and enforcing local producers. Second, this would help the government prevent other member countries from imposing trade barriers because it is highly informed on which products are likely to be subject to trade barriers and which are less likely to be subject to such measures. For instance, if the level of harmonization of standards for a certain product or category of products is low, the government could take special care and ensure through various mechanisms that these products are not having trouble in getting customs clearance. Moreover, this would also assist the government during negotiations for harmonizing regulations and standards because it would have a clear picture of where the biggest problems lie. Currently, no such analysis has been conducted.

### **7.2 Harmonization of legislation with WTO and EU standards**

Following this analysis of the most traded agricultural commodities and their level of harmonization, the government could set up working groups, and ask for the assistance of

foreign experts in harmonizing legislation with the WTO and EU standards. The reason why harmonization ought to occur according to the WTO and EU standards is because most countries, including the CEFTA member countries, harmonize legislation according to these standards. Moreover, besides ensuring that trade barriers with CEFTA countries would be reduced, this also ensures that Kosovo would at least not have problems in trading with other countries outside the CEFTA, with respect to trade barriers. In addition to that, considering that all CEFTA countries, including Kosovo, aspire to become members of the WTO and the EU, harmonizing legislation according to these standards would help ensure a smooth transition from one free trade agreement, which is much smaller in size, to a larger free trade agreement which includes many countries. Doing so would ensure that in the future, trade with most countries could be done more easily and with fewer problems.

### **7.3 Higher involvement of traders and producers in the harmonization process and in drafting customs laws**

During this analysis, the harmonization process itself, and the drafting of customs laws, the government should involve to a larger scale the domestic traders and producers. There are a number of reasons why this would be beneficial. First, traders are the people who are familiar with the problems encountered in customs borders during examinations and as such can shed light into how the harmonization of regulations should be done as well as in the drafting of new customs laws. Second, producers are familiar with the standards that they currently use and the standards used from the WTO and EU as well. In this regard, they can assist in ensuring that producers can smoothly transition and comply with new regulations or changes in regulations, without being faced with major obstacles in conducting trade. Hence, this is a very important element which should be taken into account.

### **7.4 Increased cooperation between the Food and Veterinary Agencies of the CEFTA countries**

This is another important element to the whole process of harmonizing legislation and ensuring the quality and safety that citizens of all involved countries consume. The reason why increased cooperation between the Food and Veterinary Agencies is necessary is because jointly they can ensure that they have all the capacities, i.e. equipment, personnel, required to ensure that

commodities comply with the standards and regulations of each country. Moreover, most often the Food and Veterinary Agencies employ experts who have a deep understanding of how regulations and standards ought to be formulated and whether they can be complied with. As such, these agencies should definitely be involved in the process of harmonizing legislation as well as increase cooperation with one another in order to ensure that they have all the necessary capacities required to ensure food safety.

### **7.5 Higher transparency with regard to changes in regulations and standards and the creation of a joint electronic platform**

Another action which should be taken by the government is to increase the transparency in regard to the changes in regulations and standards that occur among CEFTA countries. This could be done through the creation of a joint electronic platform where all changes in regulations and standards are immediately uploaded in the electronic platform so that all businesses are informed of the changes as quickly as possible. This would ensure that the transparency with regard to such issues is increased and that businesses possess the necessary information which would enable them to make the necessary changes in order to comply with the regulations. For instance, if businesses knew beforehand that a new document is required for exporting a certain product, they would not send shipments without complying with this order. As such, there would be no unnecessary delays in the customs points; there would be no need to return shipments back to the companies' warehouses until they are equipped with the additional documents and consequently this could reduce the financial losses to businesses. Moreover, through this electronic platform, businesses would be able to report cases when trade barriers are being placed so that the relevant institutions can take immediate actions to resolve the issues. This would make the identification process much easier and ensure the quick resolution to such obstacles.

## Chapter 8 - Conclusion

The case details obtained from the three interviews with experts of the field and the case reviews illustrate where the problems of unfair competition lie. The domestic food industry in Kosovo is subject to unfair competition where trade barriers including SPS, TBT, and import quotas are often placed for food and agricultural commodities. As such, it is important to understand where the key problems lie and how can domestic producers be protected from such unfair competition.

Moreover, what is even more significant is that the cases show the solutions achieved to remedy the problems. According to the results obtained, the majority of the trade barriers are placed on food and beverage products. This is also confirmed by the data obtained from the CEFTA directory, which show that among CEFTA countries, food and beverage goods are most prone to be subject to trade barriers. The typical trade barriers placed on these goods are usually SPSs, TBTs, and import quotas, whereas other barriers are used less often. The financial losses as well as other costs associated with these trade barriers usually have a detrimental effect on the development of the food industry in Kosovo. Hence, it is important to eliminate the trade barriers among CEFTA.

The best option for remedying this situation is to take a number of actions which ensure that trade barriers will be placed at least less often to all exporters within CEFTA. These actions include: the conducting of an analysis of most traded commodities and their level of harmonization, the stronger effort to harmonize legislation and regulations with the WTO and EU standards, the higher involvement of traders and producers in such processes and in drafting customs laws, the increased cooperation between the respective agencies among CEFTA countries, and the higher transparency with regard to changes in regulations and standards through the creation of a joint electronic platform.

## Bibliography

- (2006). *Agreement On Amendment Of And Accession To The Central European Free Trade Agreement*.
- American Chamber of Commerce in Kosovo. (2013). *Guide to Doing Business in Kosovo*.
- Berisha, A. (2011). FOREIGN TRADE OF KOSOVO AND IMPACT OF FISCAL POLICY. *European Scientific Journal*.
- Centre for International Economic Studies/WTO. (2007). Strategic trade theory. *Dictionary of trade policy terms*.
- Dictionary of trade policy terms. (2007). *Infant-industry argument*. Retrieved from [http://search.credoreference.com.ezproxy.rit.edu/content/entry/cuptpt/infant\\_industry\\_argument/0](http://search.credoreference.com.ezproxy.rit.edu/content/entry/cuptpt/infant_industry_argument/0)
- (2014). *External Trade Statistics 2013*. Prishtina: Office of the Prime Minister/ Kosovo Agency of Statistics.
- Garrod, B. (2008). Import Substitution. Retrieved from [http://search.credoreference.com.ezproxy.rit.edu/content/entry/cabitrme/import\\_substitution/0](http://search.credoreference.com.ezproxy.rit.edu/content/entry/cabitrme/import_substitution/0)
- Kosovo wineries struggle after freedom won*. (2009, November). Retrieved from Reuters: <http://tvnz.co.nz/business-news/kosovo-wineries-struggle-after-freedom-won-3111513>
- Melitz, M. J. (2005). *When and How Should Infant Industries Be Protected?* Harvard University. Retrieved from <http://dev3.cepr.org/meets/wkcn/2/2306/papers/melitz.pdf>
- Ministry of Trade and Industry. (2009). *Trade Policy of Kosovo*. MTI. Retrieved from [http://www.mti-ks.org/repository/docs/Trade\\_Policy\\_of\\_Kosovo\\_2009.pdf](http://www.mti-ks.org/repository/docs/Trade_Policy_of_Kosovo_2009.pdf)
- Ministry of Trade and Industry. (2014). *MTI Trade Database*.
- MIRAVETE, E. J. (2010). Infant industry argument. *Kenneth A. Reinert and Ramkishen S. Rajan (Eds.)*.
- Mostetschnig, A. M. (2011). *CEFTA and the European Single Market: an appropriate preparatory exercise?*
- OECD Investment Compact for South East Europe. (n.d.). *Elimination of Non-Tariff Barriers in CEFTA*. Retrieved from [http://www.oecd.org/investment/psd/CEFTA%20Issues%20Paper%204%20Elimination\\_of\\_NTBs\\_in\\_CEFTA.pdf](http://www.oecd.org/investment/psd/CEFTA%20Issues%20Paper%204%20Elimination_of_NTBs_in_CEFTA.pdf)
- Office of the United States Trade Representative. (2013). *2013 Report on Sanitary and Phytosanitary (SPS) Barriers to Trade*. Retrieved from <http://www.ustr.gov/>: <http://www.ustr.gov/about-us/press-office/reports-and-publications/2013/SPS-report>

Shala, B., & Prebreza, V. (2014, September). Bllokohet mielli i Kosovës, nuk i përmbush standardet e BE-së . *Koha Ditore*.

Telegrafi Newsportal. (2014, October 7). Bujqit, Qeveria të sigurojë eksportin e produkteve. *Telegrafi*.

The Editors of Encyclopædia Britannica. (n.d.). *Quota*. Retrieved from Britannica:  
<http://www.britannica.com/EBchecked/topic/487650/quota>

The United Nations. (2013, August). *LDC information: The criteria for identifying least developed countries*. Retrieved from [www.un.org](http://www.un.org):  
[http://www.un.org/en/development/desa/policy/cdp/ldc/ldc\\_criteria.shtml#identifying](http://www.un.org/en/development/desa/policy/cdp/ldc/ldc_criteria.shtml#identifying)

(2004). *Towards a Kosovo Development Plan: The state of the Kosovo economy*. Prishtina.

USAID. (2013). *Kosovo International Trade Guide*. Retrieved from <http://www.itg-rks.com/en-us/Trade-Agreements>

World Bank. (2009). *Bosnia and Herzegovina Trade Brief*. Retrieved from  
[http://info.worldbank.org/etools/wti/docs/Bosnia%20and%20Herzegovina\\_brief.pdf](http://info.worldbank.org/etools/wti/docs/Bosnia%20and%20Herzegovina_brief.pdf)

World Bank. (2014). *Data*. Retrieved from World Bank: <http://data.worldbank.org/country/kosovo>;  
<http://data.worldbank.org/country/bosnia-and-herzegovina>

World Trade Organization. (n.d.). *Technical barriers to trade*. Retrieved from <http://www.wto.org/>:  
[http://www.wto.org/english/tratop\\_e/tbt\\_e/tbt\\_e.htm](http://www.wto.org/english/tratop_e/tbt_e/tbt_e.htm)

## Appendix

### Interview Questions

1. Do you consider that Kosovar producers are exposed to fair or unfair competition with respect to exporting goods to other countries?
2. How severe is the problem that Kosovar producers face with unfair competition coming from foreign producers?
3. What are the cases of unfair competition (from foreign producers) which have come to your attention?
4. What are the types of barriers that foreign countries (producers) place on Kosovar imports?
5. What was the impact of these trade barriers to Kosovar producers?
6. How do you perceive Kosovo's trade relations with CEFTA's member countries?
7. Do you think Kosovo should (is in the position to) introduce reciprocal measures to CEFTA countries?
8. Should Kosovo leave CEFTA? What are the advantages (benefits) and disadvantages (consequences) of doing so?
9. Should Kosovo become part of new trade agreements (e.g. bilateral trade agreements, instead of regional trade arrangement)? What are the advantages (benefits) and disadvantages (consequences) of doing so?
10. In what way can (should) Kosovar producers be protected or empowered?